ESO NO. 6

A RETAIL FOOD STORE CASE STUDY

SUPER CITY NO. 1

by

Edgar P. Watkins
Extension Economist

COOPERATIVE EXTENSION SERVICE
THE OHIO STATE UNIVERSITY
March, 1970

A RETAIL FOOD STORE CASE STUDY
SUPER CITY NO. 1 *

This store has very recently become a part of a six store group which has a sales volume of about $10,500,000 per year. The stores vary in size from about 6,000 square foot total floor area to 20,000 foot area.

Previous to the time this organization took over management of the store, the sales volume of this store had been declining slowly and profits had disappeared. The neighborhood in which the store is located is a blue collar, lower middle class type. Wage earners are employed largely in three industrial plants. Work in these plants tends to be fairly stable. The store manager indicated the average size of the weekly pay check was about $160.

The 1960 census information indicated that the median income for the county was $5,940. The major city in this area had a median income of $5,231. Sales Management indicates that in 1968 the effective buying income for this county per household was $11,056 and $9,625 for the major city. The county has a population of about 600,000; the major city about 270,000.

---

*Prepared by Ed Watkins, Extension Economist, Food Distribution, Department of Agricultural Economics and Rural Sociology, The Ohio State University for the NARGUS Spring Management Seminar, March, 1970.

The income distribution of the area is indicated below.

Disposable Family Income	Percentage of Families in Income Group
$ 0 - 2,999	17.7 %
$3,000 - 4,999	11.2
$5,000 - 7,999	23.7
$8,000 - 9,999	16.9
+ $10,000	30.5

The store is located at the edge of the city. In recent years, the store's trading area has not experienced as rapid growth in population as has many other sections of the outer edge of the city.

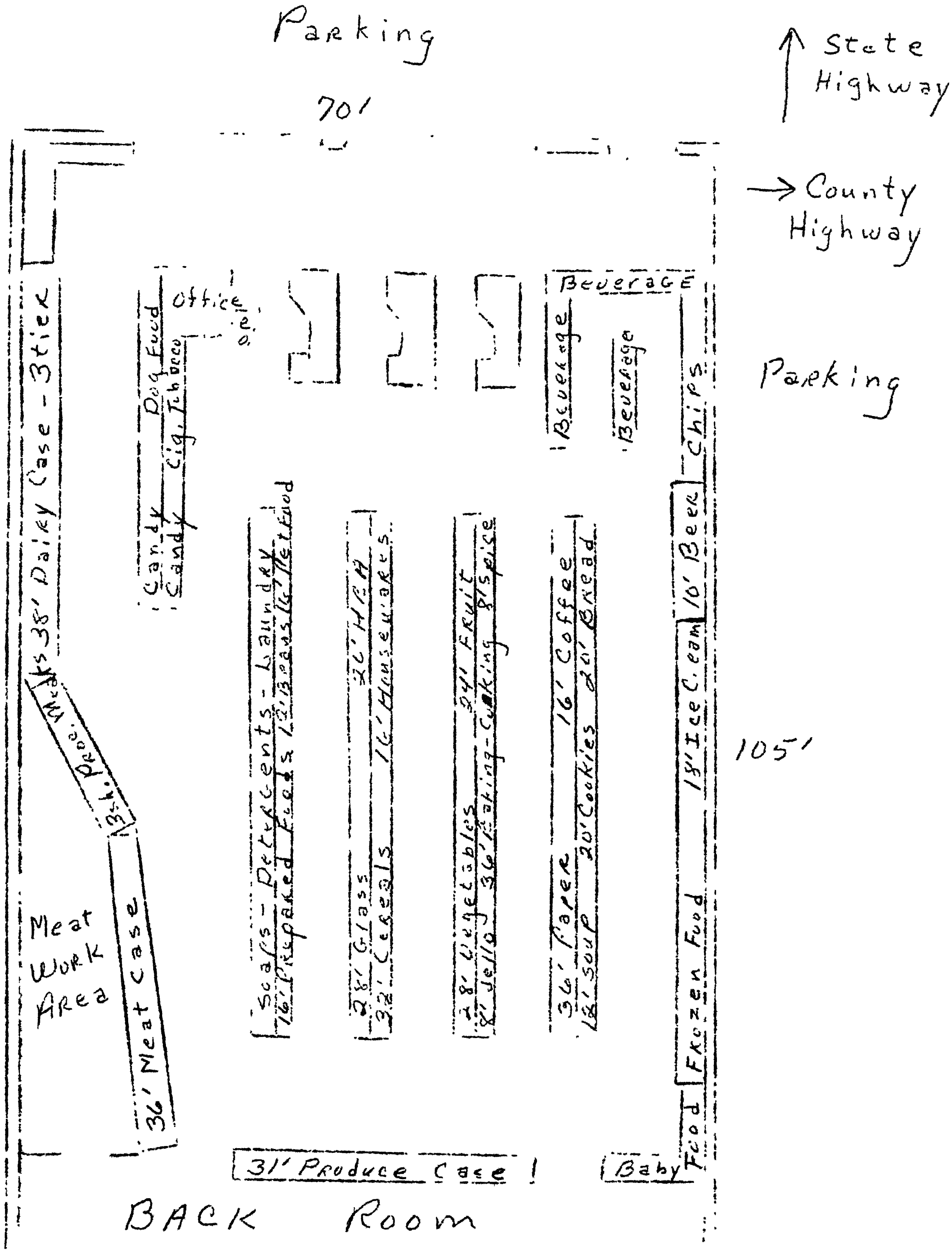
The present appearance of the store might best be described as tired. It is clean but really does not convey the impression of cleanliness. Some displays have been in place for too long. The back room is orderly but not well arranged for maximum efficiency.

At the end of the last 13 week period the financial statement indicated a sales volume of $216,290. The gross margin for the store for the period was 14.69 percent. Discounts earned brought the total gross profit up to 15.1 percent. The expense statement showed a 7.29 percent labor factor, 5.77 percent for other operating expenses, .25 percent sales expense, 1.83 percent administrative expense and .65 percent for depreciation and amortization. The net operating income was a minus .68 percent. Other income and expense adjusted the operating income to a minus .15 percent net profit. Store sales per man hour were $31.60.

The store manager indicated that this store was having trouble competing with a new combined discount store supermarket located about four miles from the store and with more effective merchandising of a national chain and a local chain located in a shopping center, about 1.4 miles toward town. The national chain is estimated to have about 26 percent of the market in this metropolitan area. The local chain has about 17 percent of the market. The national chain has increased its share of the market about 4 percent over the last three years. The closest store is an independent doing about the same volume of business as this store, about .8 mile toward the shopping center. There are several small stores in the area with a dairy store (convenience store) about 1/4 mile down the road from this store.

This store is at the intersection of a major state route and a major county highway. There is a traffic light at the intersection, access is from both the state and the county highway. Parking space is adequate, access is excellent. The store has about 9,000 feet of floor space with about 7,000 foot of selling area. The store had recently been reset changing the floor plan from a diagonal arrangement to a more conventional pattern. The manager at the time was convinced this change would help by making the store easier to shop and more acceptable.

Super City No. 1



Assets of the store totaled $81,400 in the last period. Current assets totaled $54,800 of which $11,400 was cash and $31,100 was merchandise inventory. Fixed assets totaled $21,400 of which $19,200 was book value of store equipment. Liabilities totaled $63,700 of which $62,000 was classified as current. Accounts payable totaled $59,400. In recent quarters the equity figure had been shrinking.

The assistant operations manager of the organization that took over the store tried to impress the store manager with the necessity of increasing the gross profits and bringing the labor cost down. Both the store manager and the meat manager felt that increasing gross would be very difficult under present competitive conditions. The gross margin in the grocery department for the last 13 weeks was 11.68 percent. The department wages were 2.58 percent of sales. The sales mix was grocery 62.17 percent, meat 21.61 percent, produce 4.72 percent, and dairy 11.50 percent.

The meat department showed a gross of 21.2 percent with a 7.76 percent labor cost. Produce had a gross profit of 23.8 percent and a 8.00 percent labor factor. The dairy department had a 14.9 percent gross and a 2.25 percent labor cost.

Store hours are 9 to 9 on week days and 9 to 6 on Sundays. Little newspaper advertising had been carried but hand bills were used on six post office routes about every other week. These emphasized price specials.

The administrative expenses included administrative services, office supplies, bank service charges, telephone, dues and subscriptions, licenses and fees, bad checks, cash over and short, taxes, professional services, interest expense and contributions.

The new management team also was interested in improving the appearance of the store and instituted programs for regular cleaning and housekeeping functions. The manager seemed to feel that "our customers" were more comfortable in a store that wasn't too shiny and clean, "sort of like an old shoe," he said.

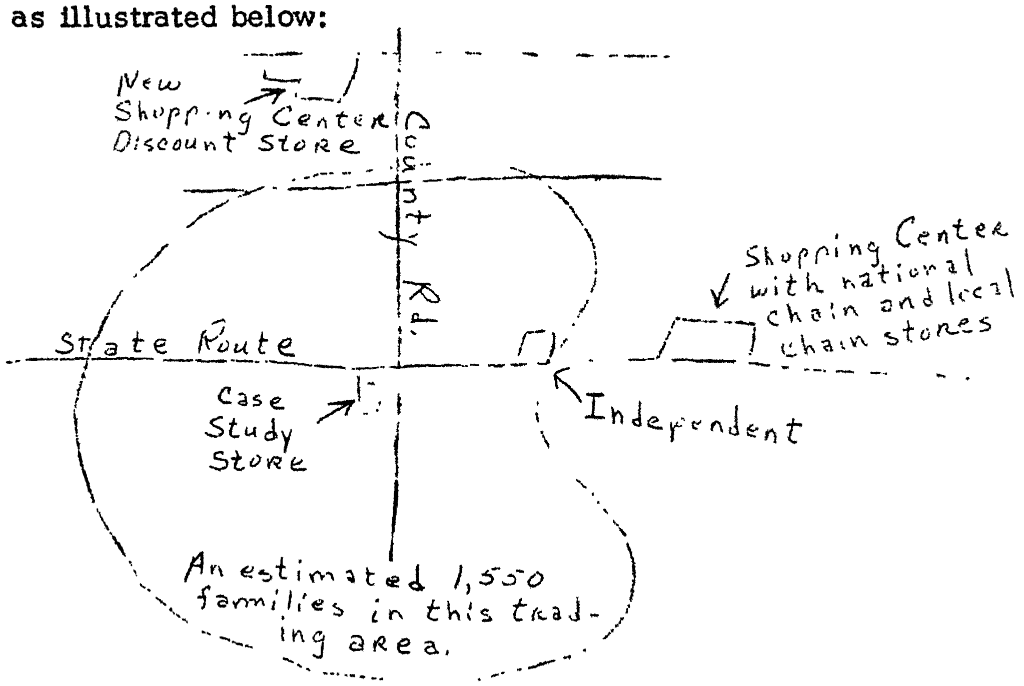
The meat department manager felt he was cutting about all the gross he could. In fact, he felt the meat department was carrying the rest of the store.

The manager stated to the new management team that he had not been able to follow any of the four pricing programs available from the wholesaler because of the uniqueness of this store's situation. The neighborhood was not the best, customers were extremely price conscious and competition was especially rough. As a result, he had held down gross margins to keep the store's customers.

The new management team consisted of the operations manager of the five store group and his assistant. They felt they could bring the manager along and help him to see his real problems and work out solutions with him. The manager most often agreed with the diagnoses which the three men made and with the course of action decided upon, but many of the decisions just did not seem to jell.

The wholesaler offered to do a customer study of the store (for a charge) to see where the customers were and what they thought of the store. There were so few responses about this store that it seemed that as far as the customer was concerned the store almost did not exist.

An informal windshield survey of the area indicated that about 750 families lived within a one mile radius of the store and about another 1,500 lived within a two-mile radius of the store. The average family size in this county is 3.35. Opinion seemed to indicate that families living in the neighborhood of the store were larger. In fact, the survey indicated an average family size of 3.9. It was generally agreed that the trading area was irregularly shaped, something like a kidney because of terrain and effects of competition. The shape of the store's trading area was judged to be about as illustrated below:



Some of the store's trading area was a mixed neighborhood with an estimated 15 percent black customers. The manager indicated that they made no effort to cater to this trade but tried to offer a store that everyone in the area would like to patronize. He guessed there was somewhat larger percentages of black residents in the community than they had among customers.

The store had about an even number of part-time and full-time employees. When it was suggested that perhaps more flexibility could be introduced in labor scheduling by using more part-timers, there was some indication that the manager felt that part-timers were not as dependable and if the proportion was changed, he would not have enough experienced people around who knew what had to be done.

The wholesale supervisor indicated that he thought the store could realize a higher gross especially in groceries and produce. The area is especially competitive on milk but he thought by doing a better job of merchandising the case that an additional 1 percent could be added to gross profit in the dairy case. The wholesale supervisor also pointed out that the new store located in the discount house was not on a low price program, although their advertising did an excellent job indicating that discount prices were being offered.

The store purchases most of the grocery items from one wholesaler house but also uses a back up wholesaler. The sponsoring wholesaler has a produce, meat and dairy program. The store also uses the produce market in town for in-season items, and as a back up source of supply. Two packers supply most of the fresh beef and two others most of the fresh pork. Most of the fresh beef is purchased in carcass form (USDA Choice--600 lb. carcass) except for specials, when subprimals are sometimes purchased for fill-ins. HBA is job racked as are kitchen utensils and a small amount of soft goods.

The wholesale supervisor rated this store below average in attractiveness and general appearance. He feels that one of the weaknesses is attitudes of employees toward customers. To make his point he says, "I said good morning to 10 employees of the store. Six of the ten gave no acknowledgement of the greeting by a wave of the hand, a big smile or a greeting in return. I would say they are indifferent and this attitude can hurt."

The manager feels that he now has a good team in the store, and given time, he can get the operations turned around. Basically, he seems to feel that what he is doing is right, that customers just need time to realize that this is the low-priced store.

At the present time there are no direct operating supervisors for stores. The operations manager and his assistant meet with the store managers each Monday at 2:00 p.m. Within established guidelines store managers are given considerable freedom to provide a fair and equitable return on the investment in the store. This is considered to be his primary job. The store manager is responsible for training his employees. He hires part time employees and may recommend full time employees.

The store manager and his department heads meet informally weekly to discuss operations. The store manager holds a front end meeting once a month to keynote problem areas. These usually last about one-half hour. The group management team feels that individual initiative should be encouraged and a store manager who is producing results is given considerably less attention than one who is not.

The green part-timers are started at minimum wage and increased as they gain experience. For experienced, skilled people the union scale is maintained, although this group is not unionized.

Instructions for Working on Case Study
Super City No. 1

When working with your group on this case study of one store in a changing situation, put yourself in the place of the operations manager for the six store group.

As operations manager, you have been asked to prepare suggestions that will move this store into a profitable position. You are told that it would seem desirable to maintain the present store team unless there are clear indications that one or more of them are a part of the problem.

As in most case studies, there are no right or wrong answers, There are problems to be identified, facts to be uncovered, choices of alternative courses of actions and decisions to be made.

As a group, you will analyze the case, develop a rationale for solving the problems identified, and be prepared to present a summary of what you have found and what your recommendations are. Please outline your analysis and recommendations so that a reasonably representative presentation of the group's thinking can be made.